



## Annual Report 2010/11



# Who are we and what do we do?

The role of the Lending Standards Board is to monitor and enforce the Lending Code

## Contents

<b>Chairman’s Statement</b>	<b>04</b>
<b>Our people</b>	<b>06</b>
<b>Chief Executive’s Review of the Year</b>	<b>08</b>
<b>Company information</b>	<b>12</b>
Director’s Report	14
Independent auditor’s report	16
Financial report	17
<b>List of subscribers</b>	<b>23</b>

The Lending Standards Board (LSB) is the successor organisation to the Banking Code Standards Board and began its work on 2 November 2009

**The LSB’s key objectives are:**

- To assist firms to interpret and meet the requirements of the Lending Code
- To monitor and enforce compliance with the Code and take enforcement action for material breaches
- To identify any gaps and deficiencies in the Code that could lead to consumer detriment and to advocate change.

The Lending Code is owned by the sponsoring bodies – the British Bankers’ Association (BBA), the Building Societies Association (BSA) and The UK Cards Association.

The Lending Code replaced the Banking Codes following the transfer of responsibilities

for the conduct of business regulation for deposit and payment products to the FSA on 1 November 2009. The Lending Code protects the following types of borrowing customer:

- a consumer
- a micro-enterprise
- a charity which has an annual income of less than £1million.

A micro-enterprise is a business that employs fewer than 10 persons and has a turnover or annual balance sheet that does not exceed €2 million.

The Lending Code sets standards of good lending practice in relation to loans, credit and charge cards and current account

overdrafts. It does not apply to non-business borrowing secured on land, store cards or to sales finance. The Code contains key commitments and detailed requirements on how customers should be dealt with through the whole product life cycle, from marketing and account opening, maintenance and the provision of information on changes to terms and conditions and interest rates. Important protection is also included to help when something goes wrong, including when someone is experiencing financial difficulties.

The text of the Lending Code can be found on our website: [www.lendingstandardsboard.org.uk](http://www.lendingstandardsboard.org.uk) This also lists all current Lending Code subscribers.



# Chairman's Statement

After the upheaval in the previous year, with the organisational transformation required as we moved from the Banking Code to the Lending Code regime, this has been a more stable, albeit no less demanding, year for the Lending Standards Board.

**The firms and products covered by the Lending Code have remained unchanged during the year and we have continued with our tried and tested approach to monitoring compliance with the Code, more details of which are given in the Chief Executive's report.**

However, I have joined the Board at a time of considerable uncertainty over how consumer credit will be regulated in the future. Following the joint consultation undertaken by the Treasury (HMT) and the Department for Business, Innovation and Skills (BIS), Government will be making a policy statement

later this year on whether responsibility for consumer credit regulation should move from the Office of Fair Trading (OFT) to the new Financial Conduct Authority (FCA) and what kind of regime is most appropriate.

The Board supports a move to a single statutory regulator for all retail banking products but is concerned to ensure that whatever target regime is eventually settled upon, it represents an improvement on the world of today and is at least as strong both in terms of the rules and the enforcement as the sum of the existing regimes, both statutory and self-regulatory. I have long

believed in the benefits that effective self-regulation can bring. Both consumers and the industry have been well served by the Banking Codes and the Lending Code in the areas that they were designed to cover. Complementary self-regulation, underpinned by the statutory regime, should not be dismissed until there is confidence that other solutions will achieve a better outcome.

We are reassured that the changes will not be rushed and on the current timetable a new regime is unlikely to be in place before 2014/2015. The LSB will be participating fully in the debate around what the new regime should look like but for now it is very much business as usual.

An independent review of the Lending Code has recently been undertaken by Professor Lorne Crerar, whose report was published in February. As a result, some 40 significant changes were made to the Code improving further the protection for consumers. Around half of these related to the support for customers who find themselves in financial difficulties which, unsurprisingly in the current economic climate, is the area to which the majority of our resources are currently directed.

We have received very favourable feedback on both the process and the outcome of the review and I must thank Professor Crerar for such a professional job. Due recognition should also be given to the industry for its willingness to agree to these changes at a time when it is subject to ever increasing levels of regulation, both home-grown and that emanating from Brussels.

Both consumers and the industry have been well served by the Banking Codes and the Lending Code in the areas that they were designed to cover



Although outside the scope of Professor Crerar's review, a number of submissions recommended that the LSB consider extending the scope of the Lending Code to cover other lending products such as store cards, HP and leasing and the rapidly growing pay-day lending markets. These products are presently subject to a variety of different codes of practice and varying levels of oversight. The products already covered by the Lending Code – overdrafts, loans and credit and charge cards account for a very high percentage of both existing and new unsecured lending and virtually all major providers of these products are subscribers to our Code. The Board believes that all consumers should receive similar levels of protection regardless of the type of loan product and how and by whom it was sold and supports a level regulatory playing field.

However, any extension of the Lending Code's product scope would have to be considered in the light of the expected changes to the consumer credit regime and until there is greater clarity, movement in this direction is unlikely.

The review also highlighted that the Lending Code is not as well known amongst consumers as was the Banking Code. Recognising this, the Code Sponsors in conjunction with the LSB have produced two short guides to the Lending Code, one for personal customers and one for micro-enterprises. These are available on the websites of subscribing firms and the LSB and since 1 July have been provided whenever a new lending product is sold which we hope will increase awareness of the Code, understanding of the key protections, and importantly, what customers should do if they have a problem.

The Lending Code retains a very high level of commitment from subscribing firms and as the figures in the Chief Executive's report illustrate, whilst there are areas where further work is required, overall compliance with the Code is good. As the new boy I can take no credit for this and must pay tribute to the enormous contribution made by my predecessor Gerard Lemos. Gerard was one of the founding directors of the BCSB in 1999 and for the last six years, as Chairman, has steered the organisation so well through some often difficult times.


Lord Hunt of Wirral, Chairman  
August 2011










# Our People

Board members at 31 March 2011

The Board consists of eight Directors: three public interest Directors, an independent Chairman, representatives of the three sponsoring trade bodies and the Chief Executive of the LSB.

**CHAIRMAN**  


**INDEPENDENT DIRECTORS**  


**DIRECTORS REPRESENTING THE SPONSORS**  


**CHIEF EXECUTIVE**

**The Right Hon the Lord Hunt of Wirral MBE**

David Hunt has been a Conservative peer since 1997 and is a member of the All Party Parliamentary Group on Insurance and Financial Services. He was elected MP for Wirral in 1976 and prior to his elevation to the House of Lords held a number of ministerial appointments. David was Senior Partner in Beachcroft Solicitors from 1995 to 2005 and is currently Chairman of their Financial Services Division.

**Claire Ighodaro CBE (1)**

Claire Ighodaro CBE is a Board member/Non-executive Director and Audit Committee Chair of Lloyd’s of London, the British Council and the Open University. She was previously a senior executive at BT plc, a Board Member of UK Trade & Investment (UKTI) and BIS and is a Past President of CIMA.

**Sir Robin Mountfield KCB (2)**

Sir Robin Mountfield is an Independent National Director of Times Newspapers Holdings Ltd. Before his retirement from the Civil Service in 1999, Robin was Permanent Secretary to the Cabinet Office.

**Alan Whiting (1,2)**

Alan Whiting is Chairman and Managing Director of Merlan Financial and holds a number of non-executive directorships, including NYSE/Euronext/LIFFE and The Gibraltar Financial Services Commission. Alan was previously Director of Financial Regulation, covering investment companies, banks, building societies and friendly societies, at HM Treasury and more recently was Executive Director, Regulation & Compliance at the London Metal Exchange.

**Adrian Coles OBE (1)**

Director General, Building Societies Association

**Eric Leenders (1,2)**

Executive Director of Retail, British Bankers’ Association

**Paul Marsh (2)**

Managing Director, The UK Cards Association

**Robert Skinner**

Biographies of all directors can be found on the LSB website at [www.lendingstandardsboard.org.uk/staffdirectors.htm](http://www.lendingstandardsboard.org.uk/staffdirectors.htm)

An Adjudication Committee, comprising two independent Directors and one industry Director, selected by rotation, and under the chairmanship of an external, independent, legally qualified practitioner, considers cases of alleged material breach and decides upon the sanction. The current chairman of the Committee is Duncan Campbell.

In addition to the Adjudication Sub-Committee, there are two further Board committees:

- The Audit & Finance Committee (1), whose role includes reviewing budgets and the annual accounts, ensuring that internal controls are effective and reviewing the appointment of the Auditors;
- A Remuneration Committee (2) that makes recommendations on the remuneration of the Chairman, Independent Directors, the Chief Executive and members of staff.

## Staff of the LSB at 31 March 2011

Sue Scott – Legal & Enforcement Director  
Paul Smith – Compliance Director  
Gaye Kirby – Operations Manager  
Julie Huxen – Administration & IT Manager

**Compliance Managers**  
Alan Dengate  
Michael Merry  
Elizabeth Thompson

# Chief Executive's Review of the year

This has been another busy period for the LSB.

Although we have not had to cope with any significant organisational changes, during the year we have undertaken a full programme of monitoring visits and a number of investigations of potential breaches of the Code. We have overseen the independent review of the Code and issued guidance to firms on our expectations on particular Code provisions. We have also continued to develop our working relations with a wide range of key stakeholders.

At the end of the year there were 42 subscribers to the Code. Whilst this is significantly fewer than the number of firms that signed up to the Banking Codes, virtually all major providers of the products covered by the Lending Code are committed to our regime and a very high proportion of all new unsecured lending in the UK receives the protection of the Code.

### Review of the Lending Code

Professor Lorne Crerar, the independent Code reviewer received over 30 submissions from a range of interested parties including consumer and debt advice bodies, other regulators, government departments and the industry. The majority of the recommendations made by the reviewer were accepted by the Code Sponsors and a new edition of the Lending Code was introduced at the end of March 2011.

The new Code includes strengthened credit assessment provisions as well as a requirement to provide clearer explanations when credit is declined. It also sets out how firms should promote and operate accounts that provide customers with the ability to 'opt-out' from unarranged overdrafts. The new commitments made by the industry

to give customers greater control over their credit cards, including paying off the most expensive debt first and giving a customer the ability to refuse an interest rate increase and repay the outstanding debt at the existing rate have also been brought within the Code.

Nearly half of all the new provisions relate to the provision of support for those experiencing financial difficulties. These include a number of measures which address concerns highlighted by the LSB's monitoring:

- Firms to be more pro-active in identifying customers who may be at risk of financial difficulties and to consider requests for forbearance prior to a missed payment or default
- A firm's response to a customer in financial difficulties, including consideration of interest and charges concessions, should

be based upon the customer's financial position and not how their case is presented. Breathing space provisions should be extended to 'self-help' customers and those using fee-based debt management support rather than be limited to those receiving fee-free debt advice

- Customers should not be expected to increase their repayments at the review stage unless their financial position has improved
- Customers should be advised before their debt is sold

The new Code also now includes more comprehensive provisions to help customers with a mental health condition to deal with their debts.

### Compliance Monitoring

We have recently produced a short guide to our monitoring activities which is included as a supplement with this Report and can also be found on our website.

Our approach to monitoring is broadly unchanged from last year and we continue to place a heavy emphasis on themed reviews and concentrate our resources on those firms and those aspects of the Code which our analysis indicates present the greatest potential for consumer detriment. As the statistics demonstrate, we have had a particular focus on financial difficulties during the year which we believe is appropriate given the current economic climate and the number of consumers experiencing difficulties in servicing their debts.

We are often asked if compliance with the Code is getting better or worse. Our monitoring certainly indicates a high degree of commitment by firms to meeting the Code's requirements in respect of the lending products falling within the Code's remit. But this narrow question fails to recognise the impact of the increasingly demanding standards required by successive editions of the Codes since the first Code of Banking Practice was introduced in 1991. We prefer to see the LSB's performance – and the value of the Code – judged on whether overall industry standards are improving and crucially whether customers are being treated fairly.

Despite the distractions caused by the fallout from the banking crisis and the uncertainties around the future regulation of consumer credit referred to in the Chairman's statement, we believe that standards have improved and the majority of our reviews warranted a GREEN rating. But not all firms have fully met our expectations and as the table below indicates we have had cause to issue two RED reports during the year in respect of compliance with the Code's provisions on how customers in financial difficulties are treated. Regrettably one subscriber was subject to formal enforcement action this year.

Themed reviews undertaken	2010/11			2009/10		
	Green	Amber	Red	Green	Amber	Red
Credit Assessment				9		
Bankers right of set-off	9					
Financial difficulties	12	2	2	6	4	1
Risk based interest rate re-pricing				15		
UK cards best practice guidelines				9	2	
Unauthorised credit card transactions	7					

We have had a particular focus on financial difficulties during the year which we believe is appropriate given the current economic climate

Our reviews, investigations and the annual statement of compliance (ASC), which all firms are required to complete, identified a total of 39 breaches of the Code. Not all of these were significant and a number were minor technical breaches with negligible consumer detriment. All material issues of non-compliance are followed-up, usually via the firm completing a remedial action plan to address the problems identified and in the case of RED and AMBER ratings, further formal monitoring visits are undertaken after 6 and 12 months respectively. At any one time, we are likely to be monitoring around ten such remedial action plans.







**Credit assessment**

This review, which was largely completed during the previous year and involved nine firms, found no breaches of the Code’s requirements. Unsurprisingly we found that subscribers had generally tightened their credit assessment criteria in response to the current economic climate. One issue that we did raise with the Code Sponsors was the need for clearer explanations when a request for credit is declined. This has subsequently resulted in new Code provisions to make it easier for customers to understand the reasons why a new or increased facility is refused.

**Right of set-off**

The right of set-off allows banks to use customers’ credit balances to clear or reduce unpaid or overdue amounts on other accounts, mainly loans and credit cards. Following concerns raised by consumer groups over the fairness with which set-off was being used and the potential for some customers to be left with insufficient money to meet essential expenditure, the LSB published guidance which came into force in May 2010 and this was subsequently incorporated into the new Lending Code.

Our review found good compliance and we identified only one minor breach which was immediately rectified. The number of complaints received by the firms reviewed about the exercise of the right of set-off was very small and if customers had called to query or complain about set-off, in all cases we saw this led to the transaction being reversed immediately and other arrangements agreed.

**Financial difficulties**

This review covered a cross-section of lenders offering overdrafts, loans and credit cards. During the review, the LSB visited the firms’ own in-house collections and recovery teams and also reviewed work at debt collection agencies working on their behalf. In addition to site visits in the UK we also made compliance visits to collections centres in India. During the main review, we visited 21 operational sites, listened to 571 customer calls and reviewed 617 case files.

Whilst the LSB found good standards of Code compliance in the majority of firms, we issued RED ratings in respect of two lenders reflecting evidence of poor practices in parts of their collections areas.

The main areas of concern identified during the review were:

- A need for greater pro-activity in looking for early indicators of financial difficulties
- Failure to properly establish what a customer could afford to repay
- Excessive focus on getting an immediate payment or promise to pay
- By-passing third party advisers acting on behalf of customers
- Inconsistent approach to the consideration of interest and charges concessions

We are now engaged in a further review involving another nine firms and 12 debt collection agents, which has also involved visits to two offshore centres.

**Unauthorised credit card transactions**

This review, which included seven firms, was prompted by concerns raised about the way that Code subscribers respond to customers disputing credit card transactions. Feedback we had received suggested that transactions took too long to resolve and that unreasonable levels of proof were required of customers to show that the transaction was unauthorised.

During the review we identified that the great majority of unauthorised credit card transactions that occur are identified and refunded by card providers without customers ever becoming aware of the issue. Where customers raise concerns about transactions they are largely investigated as required by the Code and we did not see any evidence that customers were put to unreasonable levels of proof when contesting a transaction. Accordingly we graded all the reports issued as GREEN. However, we did identify a number of general improvements which might be helpful to consumers and we are currently discussing with The UK Cards Association the need for further guidance to firms in this area. Since the report was published, the Lending Code has been enhanced to require card providers to provide information to customers on how to protect their cards and PINs

**Enforcement**

In May 2011, the Board decided that Santander Cards UK Limited had been in material breach of one of the key Commitments in the Lending Code. The Code requires that:

‘Subscribers will deal quickly and sympathetically with things that go wrong and act sympathetically and positively when considering a customer’s financial difficulties.’

The breach, which was admitted by the subscriber, related to the use over a period of months during 2010 of a suite of letters that were inappropriate in tone and one letter within the suite may have encouraged those customers in financial difficulty receiving it to increase their payments beyond that which they could afford and prefer Santander Cards over other creditors, this letter was removed in November 2010. Santander Cards co-operated fully with the LSB and sought its guidance on the drafting of the replacement letter suite introduced in March 2011. The firm has contacted some 122 customers potentially affected and refunded the additional amounts collected through the use of the original suite of letters, totalling £4,500.

Although formal enforcement action was considered in respect of the two RED rated financial difficulties reviews, it was decided that the cases fell just short of the materiality test for formal consideration by the Adjudication Committee. However, in one of the RED reports issued towards the end of the previous year, we did subsequently issue a Chief Executive’s warning. In all these cases we obtained senior executive commitment to early corrective action which we monitored through an agreed remedial action plan to completion.

Additionally, we advised the Board of a further 5 cases which had been dealt with under the ‘Remedial Action Agreed by Executive’ procedure.

**Focus of our future work**

As already mentioned, we have embarked on a further financial difficulties review and this will remain our highest priority. Other work in the coming year will be testing compliance with a number of the new provisions included in the Lending Code and will include credit assessment, a review looking at compliance with the provisions that cover the opt-out from unarranged overdrafts and a review to test compliance with the new credit card provisions and the related UK Cards best practice guidelines.

**Working with others**

The LSB could not be fully effective without maintaining a close relationship with the key consumer and debt advice bodies. As well as providing us with invaluable intelligence which we use to inform our monitoring and enforcement activities, we also welcome evidence of potential consumer detriment that may indicate a need to enhance the Code. We meet regularly with the Financial Ombudsman Service which also provides us with important information on emerging trends and practices that are leading to significant consumer complaints.

We are working increasingly closely with the OFT which has, during the year, raised a number of concerns with us about market practices or the actions of individual firms. In some cases, such as the treatment of customers who elect not to accept an increase in interest rates on their credit card, this has resulted in us issuing new guidance to firms either via a ‘Dear Compliance Officer’ (DCO) letter or via our Bulletin (which is available on our website).

A major focus of our compliance work over the past year has been the way in which third party debt collection agents, acting on behalf of subscribers, meet the Code’s requirements.

We have regular meetings with the Credit Services Association (CSA), the trade body for the debt collection industry, and have been encouraged by their work to improve standards in this sector. We have recently been discussing with the CSA and their Debt Buyers and Sellers Group, aspects of the debt sale market and the adequacy of the Code’s current provisions in this area.

We have responded to a range of consultations during the year. These have included the FSA’s proposed guidance on the use of the right of set-off, the BIS Consumer Credit and Personal Insolvency Review as well as the HMT- led consultations on the future of financial regulation.

**The LSB team**

Whilst, as the Chairman has outlined, the future approach to the regulation of consumer credit remains uncertain, the LSB enjoys a high degree of support from its stakeholders. This could not be maintained without the hard work and professionalism of my team at the LSB and I would like to thank them for their efforts during the year.

Robert Skinner  
Chief Executive  
August 2011



# Company Information

## Directors

**Gerard Lemos CMG** (Chairman)  
(Resigned 31 March 2011)

On 1 April 2011 **The Right Hon the Lord Hunt of Wirral MBE** was appointed as a Director and was duly elected as Chairman.

**Robert Skinner** (Chief Executive)

**Adrian Coles OBE**

**Claire Ighodaro CBE**

**Sir Robin Mountfield KCB**

**Alan Whiting**

**Paul Marsh**

**Eric Leenders** (Appointed 4 June 2010)

**Angela Knight CBE** (Resigned 3 June 2010)

## Company Secretary

Sisec Limited

## Registered office

21 Holborn Viaduct  
London  
EC1A 2DY

## Auditor

Chantrey Vellacott DFK LLP  
Chartered Accountants  
Statutory Auditor  
Russell Square House  
10 – 12 Russell Square  
London  
WC1B 5LF

## Bankers

Coutts & Co  
440 Strand  
London  
WC2R 0QS





# Director's Report

The Directors have pleasure in presenting their report and the audited financial statements of the company for the year ended 31 March 2011.

## Incorporation

The company was incorporated on 14 October 1999 as a company limited by guarantee and not having share capital. Every member of the Company would be required under the terms of the guarantee to contribute such amount as may be required (not exceeding £10) to the company's assets if it should be wound up.

## Principal activities

The principal activity of the company is the monitoring and enforcement of the Lending Code (the Code); a voluntary code of practice for financial services providers intended to protect customers.

## Directors

The Directors who served the company during the year were as follows:

**Robert Skinner** (Chief Executive)

**Adrian Coles OBE**

**Claire Ighodaro CBE**

**Sir Robin Mountfield KCB**

**Alan Whiting**

**Paul Marsh**

**Eric Leenders** (Appointed 4 June 2010)

**Gerard Lemos CMG** (Chairman)  
(Resigned 31 March 2011)

**Angela Knight CBE** (Resigned 3 June 2010)

On 1 April 2011 **Lord Hunt of Wirral** was appointed as a Director and was duly elected as Chairman.

## Governance Structure

The Board meets approximately eight times a year. At each Board meeting Directors review detailed papers on the activities of the company. Monitoring of Lending Code subscribers is via pre-application reviews, themed reviews, investigations and mystery shopping; the members of the Board have oversight of this. In addition, each subscriber is required to produce an annual statement confirming full compliance with the Code.

Where a material breach of the Code is identified, an Adjudication Committee, chaired by an independent legal practitioner who is not a Director, and consisting of two independent and one industry Director, considers the case and decides upon the sanction. Less serious breaches of the Code are considered by the Executive who agrees appropriate remedial action with the subscriber.

In addition to the Adjudication Committee, there are two further Board committees:

- The Audit and Finance Committee, whose role includes reviewing budgets and the annual accounts, ensuring that internal controls are effective and reviewing the appointment of the Auditors, and
- A Remuneration Committee, that makes recommendations on the remuneration of the Chairman, Independent Directors, the Chief Executive and members of staff.

## Directors' responsibilities

The Directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act

2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Insofar as the Directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

## Auditor

Chantrey Vellacott DFK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006.

## Small company provisions

This report has been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

Signed on behalf of the Directors



Lord Hunt of Wirral  
Director

**Approved by the directors  
on 15 August 2011**



# Independent Auditor's Report

To the members of The Lending Standards Board  
Year ended 31 March 2011

We have audited the financial statements of The Lending Standards Board for the year ended 31 March 2011 which comprise the profit and loss account, balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' responsibilities statement set out on pages 14 to 15, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the Directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemption in preparing the directors' report.

*Chris Malacrida*

Chris Malacrida  
(Senior Statutory Auditor)  
for and on behalf of  
Chantrey Vellacott DFK LLP  
Chartered Accountants and Statutory Auditor  
London

15 August 2011

# Financial Report

## Profit and loss account Year ended 31 March 2011

	Note	2011 £	2010 £
<b>Fees</b>		<b>1,189,009</b>	1,695,694
Operating costs		<b>1,211,527</b>	1,697,347
<b>Operating loss</b>	2/5	<b>(22,518)</b>	(1,653)
Attributable to:			
Operating profit/(loss) before exceptional items		<b>(22,518)</b>	304,932
Exceptional items	5	–	(306,585)
		<b>(22,518)</b>	(1,653)
Interest receivable		<b>9,774</b>	7,863
Interest payable and similar charges		<b>(5,590)</b>	–
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(18,334)</b>	6,210
Tax on (loss)/profit on ordinary activities	6	<b>234</b>	683
<b>(Loss)/profit for the financial year</b>		<b>(18,568)</b>	5,527

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

There is no difference between the results shown above and their historical cost equivalents.

## Balance sheet

	Note	2011 £	2010 £
<b>Fixed assets</b>			
Tangible assets	7	<b>7,599</b>	6,492
<b>Current assets</b>			
Debtors	8	<b>98,164</b>	80,953
Cash at bank		<b>670,413</b>	638,186
<b>Creditors: amounts falling due within one year</b>	9	<b>768,577</b>	719,139
		<b>160,353</b>	91,240
<b>Net current assets</b>		<b>608,224</b>	627,899
<b>Total assets less current liabilities</b>		<b>615,823</b>	634,391
<b>Reserves</b>			
Profit and loss account	12	<b>615,823</b>	634,391
<b>Members' funds</b>		<b>615,823</b>	634,391

The notes on pages 18 – 22 form part of these financial statements

These financial statements have been prepared in accordance with the special provisions for small companies under Part 15 of the Companies Act 2006.

These financial statements were approved by the Directors and authorised for issue on 15 August 2011, and are signed on their behalf by:

*Lord Hunt of Wirral*

Lord Hunt of Wirral  
Director

*Robert Skinner*

Robert Skinner  
Director  
Company Registration Number: 3861859



# Notes to the financial statements

## 1. Accounting policies

### Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards.

### Going Concern

The Directors believe the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the company to continue as a going concern.

### Cash flow statement

The Directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small.

### Fees

Fees comprises annual subscriptions payable for the year ended 31 March 2011.

### Fixed assets

All fixed assets are initially recorded at cost.

### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Fixtures & Fittings - 33% straight line

Computer and other equipment - 33% straight line

### Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### Pension costs

The company offers a Group Personal Pension Plan for all employees. The assets of the plan are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

### Deferred taxation

Deferred tax is recognised in respect of all material timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exception:

Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Financial instruments

Financial assets such as cash and debtors are measured at the present value of the amounts receivable, less an allowance for the expected level of doubtful receivables. Financial liabilities such as trade creditors, loans and finance leases are measured at the present value of the obligation. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

## 2. Operating loss

Operating loss is stated after charging

	2011 £	2010 £
Depreciation of owned fixed assets	6,925	6,364
Loss on disposal of fixed assets	26	2,350
Auditor's fees	7,600	7,250
Operating lease costs – Land and buildings	37,500	38,349

## 3. Directors' remuneration

	2011 £	2010 £
Gerard Lemos CMG (resigned 31 March 2011)	50,000	47,188
Claire Ighodaro CBE	17,000	16,000
Robert Skinner	170,060	194,250
Sir Robin Mountfield KCB	15,000	14,000
Alan Whiting	15,000	14,000
Claire Foster (resigned 31 December 2009)	–	10,500
Paul Marsh	–	–
Adrian Coles OBE	–	–
Eric Leenders (appointed 4 June 2010)	–	–
Angela Knight CBE (resigned 3 June 2010)	–	–
	267,060	295,938

Directors' remuneration includes contributions totalling £15,606 (2010: £15,300) paid to a pension arrangement to secure money purchase benefits for Robert Skinner.

## 4. Directors and staff cost

The aggregate payroll costs (including all directors and pension contributions) were:

	2011 £	2010 £
Wages and salaries	661,857	842,343
Social security costs	115,945	104,716
Other pension costs	52,070	69,056
	829,872	1,016,115

The average number of staff employed by the company during the financial year (excluding non-executive Directors) amounted to 8 (2010 - 12). Pension contributions were paid into an employee Group Personal Pension Plan.



5. Exceptional items

	2011 £	2010 £
Recognised in arriving at operating loss: Reorganisation costs	-	306,585

The reorganisation costs of £306,585 included in the profit and loss account related to the restructuring of the company during 2010. This was due to the change of the company’s activities from The Banking Code Standards Board to The Lending Standards Board.

6. Taxation on ordinary activities

(a) Analysis of charge in the year

	2011 £	2010 £
<b>Current tax:</b>		
UK Corporation tax based on the results for the year at 21% (2010 - 21%)	-	683
Over/under provision in prior year	234	-
<b>Total current tax</b>	<b>234</b>	<b>683</b>

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is at a higher rate than the standard rate of corporation tax in the UK of 21% (2010 - 21%).

	2011 £	2010 £
(Loss)/profit on ordinary activities before taxation	(18,334)	6,210
(Loss)/profit on ordinary activities multiplied by rate of tax	(3,850)	1,304
Expenses not deductible for tax purposes	2,077	169
Capital allowances for period in excess of depreciation	(1,583)	(790)
Unrelieved tax losses	3,356	-
Adjustments to tax charge in respect of previous periods	234	-
<b>Total current tax (note 6(a))</b>	<b>234</b>	<b>683</b>

(c) Factors that may affect future tax charges

The company has tax losses of approximately £81,488 (2010: £65,506) available to be carried forward against future trading profits. As there is insufficient evidence that these tax losses will become recoverable within the meaning of FRS 19, Deferred Taxation, they have not been recognised.

7. Tangible fixed assets

	Fixtures & Fittings £	Computer and other equipment £	Total £
<b>Cost</b>			
At 1 April 2010	5,419	42,921	48,340
Additions	-	8,058	8,058
Disposals	-	(13,497)	(13,497)
<b>At 31 March 2011</b>	<b>5,419</b>	<b>37,482</b>	<b>42,901</b>
<b>Depreciation</b>			
At 1 April 2010	3,921	37,927	41,848
Charge for the year	666	6,259	6,925
On disposals	-	(13,471)	(13,471)
<b>At 31 March 2011</b>	<b>4,587</b>	<b>30,715</b>	<b>35,302</b>
<b>Net book value</b>			
<b>At 31 March 2011</b>	<b>832</b>	<b>6,767</b>	<b>7,599</b>
At 31 March 2010	1,498	4,994	6,492

8. Debtors

	2011 £	2010 £
Other debtors	98,164	80,953

9. Creditors: amounts falling due within one year

	2011 £	2010 £
Trade creditors	26,981	39,076
Corporation tax	234	518
PAYE and social security	42,543	-
Other creditors	9,148	-
Accruals and deferred income	81,447	51,646
	<b>160,353</b>	<b>91,240</b>

The company has made a provision for PAYE & National Insurance tax liabilities, including interest and penalties arising on employee benefits in prior years following an HM Revenue & Customs inspection of employer records during the year. At the date the accounts were approved, the company has provided information to reach a settlement with HMRC and a provision of £45,000, representing the company’s best estimate of the likely outcome, has been made in the accounts.



## 10. Commitments under operating leases

	Land and buildings 2011 £	2010 £
Operating leases which expire: Within two to five years	37,500	37,500

At 31 March 2011 the company had annual commitments under non-cancellable operating leases as set out opposite.

## 11. Company limited by guarantee

The company was incorporated on 14 October 1999 as a company limited by guarantee and not having share capital. Every member of the Company would be required under the terms of the guarantee to contribute such amount as may be required (not exceeding £10) to the Company’s assets if it should be wound up.

## 12. Profit and loss account

	2011 £	2010 £
Balance brought forward	634,391	628,864
(Loss)/profit for the financial year	(18,568)	5,527
Balance carried forward	615,823	634,391

# Subscribers

## Subscribers to the Lending Code as at 31 March 2011

Adam & Company Plc	Cumberland Building Society	Norwich and Peterborough Building Society
AIB Group (UK) plc	First Trust Bank	Royal Bank of Scotland plc
Airdrie Savings Bank	Habib Bank AG Zurich	S G Hambros Bank Limited
American Express Services Europe Limited	Harrods Bank Limited	Sainsbury’s Bank plc
Bank of Cyprus Public Limited Company	HSBC Bank plc	Santander Cards UK Ltd
Bank of Ireland UK Financial Services	ICICI Bank UK PLC	Santander UK plc
Barclays Bank PLC	Lloyds Banking Group plc	Secure Trust Bank
Butterfield Bank (UK) Limited	Marfin Popular Bank Public CO LTD	State Bank of India
Capital One (Europe) Plc	Marks & Spencer Financial Services plc	Tesco Personal Finance
Citibank International plc (UK Consumer Division)	MBNA Europe Bank Ltd	Triodos Bank NV
Clydesdale Bank PLC	Nationwide Building Society	Turkish Bank (UK) Ltd
Co-operative Bank (The)	Northern Bank Limited	Ulster Bank Limited
Coutts & Co	Northern Rock (Asset Management) plc	Unity Trust Bank plc
Coventry Building Society	Northern Rock PLC	Wesleyan Bank Limited

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